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C O N F I D E N T I A L SECTION 1 OF 2 NEW DELHI 2344

E.O. 11652: GDS

TAGS: ENRG, EAID, EFIN, IN

SUBJECT: CIEC: INDIAN VIEWS ON COMMISSION ISSUES

REF: STATE 20560

1. THREE FACTORS WILL PREDOMINATE IN THE DEVELOPMENT OF INDIAN POSITIONS ON CIEC ISSUES: (A) INDIA'S MASSIVE AND CHRONIC BALANCE OF TRADE DEFICIT; (B) THE ADVANCED STATE OF ITS DOMESTIC TECHNOLOGICAL DEVELOPMENT AND, THEREFORE THE AMBIVALENCE OF ITS ATTITUDES TOWARDS TRADITIONAL NORTH/SOUTH, RAW MATERIALS MANUFACTURES PROBLEMS, AND (C) ITS BELIEF THAT THE ONLY PRACTICAL COURSE OPEN TO IT IS A TACTICAL ALLIANCE WITH OPEC IN DEALING WITH THE INDUSTRIALIZED WEST. WE CAN EXPECT THE INDIAN DELEGATION TO WORK ACROSS THE BOARD TO RESTRUCTURE NORTH-SOUTH ECONOMIC RELATIONS SO AS TO PROVIDE FOR GREATER AID FLOWS AT THE LEAST POSSIBLE COST AND FOR IMPROVED EXPORT EARNINGS FROM BOTH BETTER PRICE AND GREATER VOLUME. ITS NEGOTIATING STANCE, HOWEVER, IS LIKELY TO BE MORE
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PRAGMATIC THAN MOST DEVELOPING COUNTRIES, CONCILIATORY RATHER

THAN REVOLUTIONARY, AND THE INDIANS MAY BE EXPECTED TO WORK TOWARD LESS RADICAL AND IDEOLOGICAL POSITIONS WITHIN LDC CAUCUSES.

2. THE FOLLOWING PARAGRAPHS PROVIDE IN CAPSULE FORM INDIAN GOVERNMENT VIEWS ON THE ISSUES ENUMERATED IN THE REFERENCED TELEGRAM. IN SOME CASES THE DESCRIPTION OF THE GOI POSITION IS DRAWN FROM PUBLIC OR PRIVATE OFFICIAL STATEMENTS; IN OTHERS, IT IS DEDUCED FROM INDIAN MIND-SETS AND EXTERNAL REALITIES. WE WILL BE PURSUING THE DISCUSSION OF THESE ISSUES IN ON-GOING CONTACTS WITH GOI OFFICIALS AND, AS INDICATED IN NEW DELHI 2130, WOULD WELCOME INFORMATION ON INDIAN DELEGATION BEHAVIOR IN THE COMMISSION SETTING AND IDENTIFICATION OF THOSE ISSUES ON WHICH THEIR POSITION MAY BE OF PARTICULAR CONSEQUENCE.

3. ENERGY COMMISSION ISSUES

A. GOI OFFICIALS RECOGNIZE AND GRUMBLE ABOUT THE DISRUPTIVE IMPACT WHICH THE RISE IN CRUDE OIL PRICES HAS HAD ON THE "WORLD ECONOMY," I.E., ON THE INDUSTRIALIZED COUNTRIES AND THEIR LDC TRADING PARTNERS. BUT THIS ECONOMIC DISTURBANCE IS ALSO SEEN TO BE THE EXPRESSION OF A SHIFT IN ECONOMIC POWER INTO THE HANDS OF DEVELOPING COUNTRIES. THUS A SHORT TERM DESTABILIZATION IS ACCEPTED, IF NOT WELCOMED, IN THE HOPE OF MORE ADVANTAGEOUS LONG TERM ECONOMIC BENEFITS. OR, AS WE ARE OFTEN ASKED, WHAT COULD OR WOULD THE DEVELOPED COUNTRIES DO TO HELP INDIA IF INDIA WERE TO ATTACK THE PRICE INCREASES?

B. NEW DELHI 831 REPORTED ON THE IMPACT OF HIGHER OIL PRICES ON INDIA'S ECONOMIC DEVELOPMENT.

C. THE SECURITY OF ENERGY SUPPLY -- AS DISTINCT FROM THE FINANCIAL RESOURCES TO PAY FOR IMPORTS -- IS NOT A LONG RUN CRITICAL ISSUE FROM THE GOI POINT OF VIEW. THE COUNTRY SEES ITSELF AS ENERGY RICH -- PARTICULARLY BECAUSE OF COAL BUT ALSO BECAUSE OF RECENT OIL FINDS -- AND IS GIVING PRIORITY TO THE DEVELOPMENT OF ITS INDIGENOUS RESOURCES WITH THE HOPE OF BECOMING INDEPENDENT WITHIN FIVE TO TEN YEARS. IT IS CONCERNED ABOUT POSSIBLE MIDDLE EAST TURMOIL LEADING TO AN EXPORT EMBARGO. HOWEVER, IT EXPECTS TO KEEP ITS INTERNATIONAL POLITICAL STANCE ADEQUATELY IN TUNE WITH ARAB DEMANDS WITHOUT TOO MUCH DIFFICULTY AND THUS AVOID THE

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DANGER.

D. FROM THE POINT OF VIEW OF INDIA'S SELF-INTEREST, LONG TERM COOPERATION ON KEY ENERGY ISSUES SHOULD BEST COME IN THE WAKE OF A MAJOR RESTRUCTURING OF NORTH-SOUTH RELATIONS. THAT IS TO SAY, THE PRICE AND SUPPLY OF OIL IS THE TRUMP CARD. IT IS WHAT MAKES THE CIEC A PROMISING FORUM FOR NORTH-SOUTH NEGOTIATION IN CONTRAST TO THE HORTATORY FORUMS OF THE UN AND UNCTAD. THEY WOULD NONETHE-

LESS SEEK TO PREVENT HEATED CONFRONTATION OVER OIL, KNOWING THE VULNERABILITY OF THE NON-OIL LDC'S TO ECONOMIC SHOCKS.

E. INDIA IS TECHNOLOGICALLY A WELL-DEVELOPED LDC AND HAS BEEN BUYING WESTERN TECHNOLOGY IN THE ENERGY FIELD FOR MANY YEARS -- PARTICULARLY FOR ATOMIC ENERGY AND PETROLEUM. IT HAS ALSO RECEIVED ASSISTANCE FROM THE EASTERN EUROPEANS IN OIL AND COAL, AND HAS HAD RECENT CONTACT WITH THE UK AND FRG ON IMPROVED COAL MINING TECHNIQUES. THE PROBLEM IS MONEY.

F. OFFERS OF TECHNICAL ASSISTANCE FROM THE INDUSTRIALIZED COUNTRIES WOULD BE MEANINGLESS TO INDIA IN THE ABSENCE OF A FINANCIAL COMPONENT (VIDE SUBPARA E ABOVE).

G. IN VIEW OF THE ADVANCED STATE OF INDIA'S ENERGY PROGRAMS, THE PROPOSED INTERNATIONAL ENERGY INSTITUTE OFFERS LITTLE OF INTEREST EXCEPT AS A POSSIBLE CHANNEL OF FINANCIAL AID.

H. THE GOI HAS CAREFULLY KEPT FROM ENDORSING THE CONCEPT OF INDEXATION AND SEEMS TO BE FULLY AWARE OF THE ADVERSE EFFECT IT WOULD HAVE ON AN LDC WHOSE IMPORTS LARGELY CONSIST OF RAW MATERIALS AND WHOSE PRINCIPAL EXPORTS ARE NOT SUBSCEPTIBLE TO PRICE RIGGING; E.G., JUTE, TEA, CASHEWS, VEGETABLE OILS, AND AS AN INCREASING EXPORTER OF MANUFACTURES. THE INDEXATION OF THE PRICE OF CRUDE OIL WOULD BE PARTICULARLY TO INDIA'S DISADVANTAGE. THE GOI CAN BE EXPECTED TO TRY TO SCUTTLE THE IDEA, WITHIN THE LIMITS OF FLEXIBILITY IMPOSED BY ITS NEGOTIATING PARTNERSHIP WITH THE OPEC COUNTRIES.

4. DEVELOPMENT COMMISSION ISSUES

A. THE GOI UNDOUBTEDLY PLACES THE IMMEDIATE FINANCIAL NEEDS OF THE MSA'S AND OTHER NON-OIL LDC'S AMONG ITS TOP PRIORITIES
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FOR THE CIEC. GOVERNMENT OFFICIALS SEE THE SHORTAGE OF FOREIGN EXCHANGE AS A MAJOR CONSTRAINT ON THEIR DEVELOPMENT EFFORTS, A CONDITION LIKELY TO CONTINUE FOR THE FORESEEABLE FUTURE.

B. WE DOUBT THAT INDIANS CONSIDER THE DISTINCTION BETWEEN IMMEDIATE AND LONGER TERM FINANCIAL NEEDS OF NON-OIL LDC'S TO BE SIGNIFICANT.

C. THE GOI HAS FAVORED -- AND MADE USE OF -- EVERY CHANNEL FOR INCREASING THE FLOW OF FUNDS TO THE LDC'S. IT HAS, HOWEVER, ADOPTED A RESTRICTIVE POLICY TOWARDS PRIVATE INVESTMENT, AND SEES LITTLE BENEFIT FOR ITSELF IN IMPROVED ACCESS TO THE CAPITAL MARKETS OF THE INDUSTRIAL COUNTRIES.

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ACTION EB-07

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C O N F I D E N T I A L FINAL SECTION OF 2 NEW DELHI 2344

D. THE GOI ESPOUSES THE GOAL OF GREATER LDC ECONOMIC STRENGTH THROUGH INTRA-LDC "COOPERATION". THIS INCLUDES RESOURCE FLOWS FROM OPEC IN THE FORM OF CREDIT SALES, INVESTMENT, AND FINANCIAL AID. OBVIOUSLY THE GOI WOULD RATHER, FOR BALANCE OF PAYMENTS REASONS, GET THESE FUNDS AT CONCESSIONAL INTEREST RATES. BUT THEY WILL NOT PRESS OPEC FOR CONCESSIONAL AID IN A MULTILATERAL SETTING BOTH BECAUSE OF THE TACTICAL SITUATION AND, BECAUSE FOR HISTORICAL, REASONS THEY CANNOT ARGUE THAT OPEC GIVES THEM RESTITUTION FOR EARLIER EXPLOITATION.

E. SEE SUBPARA C ABOVE.

F. INDIA WILL SUPPORT AND GIVE IMPORTANCE TO ALL PROPOSALS TO MAINTAIN THE AVAILABILITY OF FOOD ON THE INTERNATIONAL MARKET AT THE LOWEST POSSIBLE COST, AS WELL AS THE ESTABLISHMENT OF ANY MACHINERY WHICH WILL LEAD TO A NET INCREASE IN AVAILABLE FOREIGN RESOURCES FOR ITS OWN DEVELOPEMENT.

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G. THE INDIAN GOVERNMENT HAS ADOPTED A VIGOROUS EXPORT EXPANSION POLICY IN AN ATTEMPT TO BRING A RUNAWAY TRADE DEFICIT UNDER CONTROL. THIS HAD LED TO HEIGHTENED CONCERN OVER BARRIERS TO THE MARKETS OF THE INDUSTRIALIZED COUNTRIES AND STRONG SUPPORT FOR PROGRESS AT THE MTN IN TERMS OF LDC TRADE INTERESTS. INDIANS DO NOT HARP ON THE "DETERIORATING LDC TERMS OF TRADE" THEME BUT THEY ACCEPT IT AS A GENEALLY ACCURATE DESRIPTION OF THE TRADING RELATIONSHIP.

H. NON-OFFICIAL COMMENTATORS ON THE GSP HAVE EMPHASIZED THE LIMITS OF ITS APPLICABILKTY. THE MINISTRY OF COMMERCE, ON THE OTHER HAND, RECOGNIZES THE SIGNIFICANT POTENTIAL BENEFITS THAT THE SYSTEM PROVIDES FOR BOOSTING INIDAN EXPORTS. OFFICIALS WOULD NATURALLY LIKE TO SEE PRODUCT COVERAGE EXPANDED AND (FOR NON-US SCHEMES) QUOTAS ELIMINATED.

I. THE PROBLEM OF DEBT REPAYMENT IS CRITICALLY IMPORTANT TO INDIA'S BALANCE OF PAYMENTS. FOR THE LAST INDIAN FISCAL YEAR(ENDING MARCH 31, 1975), DEBT SERVICE PAYMENTS REPRESENTED 19 PERCENT OF EXPORT EARNINGS. INDIAS HAS SOUGHT DEBT RESCHEDULING ON THE SOFTEST POSSIBLE TERMS.

J. TRANSFER OF TECHNOLOGY IS NOT A HIGH PRIORITY ISSUE FOR INDIA BECAUSE OF ITS ADVANCED TECHNOLOGICAL DEVELOPMENT. IT WANTS WESTERN TECHNOLOGY AND IS EVEN WILLING -- BUREAUCRATIC RIGIDITIES PERMITTING -- TO PERMIT FOREIGN INVESTMENT IN ORDER TO OBTAIN IT. AS NOTED ABOVE WITH REGARD TO ENERGY, THE CON-STRAINT INDIA FEELS IS INSUFFICIENT FINANCIAL RESOURCES TO PAY FOR FOREIGN TECHNOLOGY OR TO IMPROVE ITS DOMESTIC R AND D CAPABILITIES.

K. INDIA TAKES A MOST JAUNDICED VIEW OF THE ROLE OF PRIVATE ENTERPRISE IN ACHIEVING ITS OWN DEVELOPMENT GOALS, SO ITS PRINCIPAL INTERESTS LIE IN OTHER INTERNATIONAL ISSUES. THE GOI SEES TRANSNATIONAL COOPERATIONS IN PARTICULAR AS VILLAINS ON THE INTERNATIONAL STAGE. BUT IT HAS ALREADY THROWN UP SUCH BARRIERS TO THEIR OPERATIONS IN INDIA AS TO REMOVE ANY SENSE OF IMMEDIATE DANGER

L. THE GOI IS AN ACTIVE EXPONENT OF THE PROPOSITION THAT THE RICH SHOULD GIVE TO THE POOR. BUT THIS BECOMES SOMETHING

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OF A THEORETICAL ISSUE IN THE LIGHT OF THE STRONG RESPONSE OF THE INDUSTRIALIZED COUNTRIES TO INDIA'S HUGE BALANCE OF PAY-MENTS DEFICITS OVER THE PAST TWO YEARS (INDIA'S RESERVES HAVE

IMPROVED SLIGHTLY) AND ITS SENSITIVITY OVER THE DEPENDENCE INHERENT IN THE AID RELATIONSHIP. IN SUM, INDIA SHOULD HAVE REASON TO BE SATISFIED WITH GROSS LEVELS OF CURRENT AID FLOW LEVELS. INDIA, HOWEVER, POINTS OUT THAT ON PER CAPITA BASIS AID FLOWS TO INDIA ARE MINIMAL. WHAT THE GOI WOULD LIKE IS INVESTIBLE RESOURCES WITHOUT DONOR IDENTIFICATION OR INFLUENCE, E.G., THE SDR AID LINK, IFAD LENDING TO INDIAN ORGANIZATIONS AS IMPLEMENTING AGENCIES, AND HIGH EXPORT PRICES.

M. IT APPEARS THE GOI WILL PLAY THE PROBLEM OF COMPETING INTERNATIONAL FORUMS BY EAR. IT IS CONCERNED THAT THE DEVELOPED COUNTRIES WILL BLOCK PROGRESS IN ONE FORUM BY ARGUING THAT THE SUBJECT IS UNDER DISCUSSION IN ANOTHER (E.G., UNCTAD IV OR THE IMF). THE INDIANS SEEM INCLINED TO MAKE THE CIEC THE PRINCIPAL BARGAINING SITE ON CRITICAL POLICY ISSUES BECAUSE OF LDC'S NUMERICAL WEIGHT AND THE PERCEIVED STRENGTH OF THE OPEC ALLIANCE.

THE ISSUES DEALT WITH IN SUBPARAS G, H, I, J, AND L ABOVE HAVE ALL BEEN THE SUBJECT OF DETAILED DISCUSSION IN UNCTAD BODIES FOR THE PAST SEVERAL YEARS. US DELEGATIONS TO THOSE MEETINGS WOULD BE THE BEST SOURCE FOR INFORMATION ON THE VIEWS OF INDIA AS WELL AS OTHER LEADING LDC'S.

5. FINANCE COMMISSION ISSUE

A. WE HAVE NO EVIDENCE THAT GOI OFFICIALS HAVE THOUGHT THROUGH THE "MAINTENANCE OF VALUE" ISSUE. THEY CAN BE EXPECTED TO BE SYMPATHETIC TO ANY DEVICE--NO MATTER HOW ARTIFICIAL--WHICH PROTECTS OR ENHANCES THE ECONOMIC INTERESTS OF DEVELOPING COUNTRIES.

B. THE QUESTION OF PROTECTING OIL PRODUCERS' INVESTED ASSETS IN FOREIGN COUNTRIES HAS LITTLE SIGNIFICANCE TO INDIA. PRESUMABLY IT WOULD BE WILLING TO SEE THE MATTER SETTLED AS PART OF A BROAD RESOLUTION OF OIL PRODUCER/CONSUMER RELATIONS.

C. WHILE WELCOMING OPEC INVESTMENT, THE INDIAN GOVERNMENT CONSIDERS ITSELF TECHNOLOGICALLY COMPETENT. THUS TRIANGULAR
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PROJECTS WHICH INCLUDE A WESTERN TECHNOLOGY COMPONENT WOULD HAVE ONLY A LIMITED APPEAL. (INDIA HAS RECENTLY FINALIZED DEALS WITH KUWAIT AND IRAN TO FINANCE LARGE SCALE DEVELOPMENT PROJECTS. IN BOTH CASES, WE EXPECT THE GOI WILL USE A PORTION OF THE BORROWED FUNDS FOR PROCUREMENT FROM THE US AND OTHER WESTERN SOURCES.)

D. INDIA HAS NO INTEREST IN ASSISTANCE FROM THE INDUSTRIALIZED COUNTRIES IN DEVELOPING ITS DOMESTIC CAPITAL MARKETS.

E. INDIA SEES IMPROVED ACCESS TO DEVELOPED COUNTRY (AND OPEC) MARKETS AS THE PREFERRED SOLUTION TO LDC BALANCE OF PAYMENTS PROBLEMS. BEYOND THE REDUCTION OF TARIFF AND NON-TARIFF BARRIERS, THIS WOULD BE ACCOMPLISHED THROUGH SHIFTING THE LOCUS OF SECTORS OF INDUSTRIAL PRODUCTION FROM THE DEVELOPED TO THE DEVELOPING WORLD.

F. INDIA RECOGNIZES THAT IT IS NOT A POTENTIAL BENEFICIARY OF IMPROVED LDC ACCESS TO DC CAPITAL MARKETS.
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